MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BLE2874 – LABOUR ECONOMICS

(All sections / Groups)

10 OCTOBER 2016
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOUR (4)** structured questions in **THREE (3)** printed pages.

2. Answer **ALL** questions in the answer booklet provided.

3. Marks are shown at the end of each question.

Question 1

Read the following passage.

RM1,000 minimum wage beginning July

KUALA LUMPUR: The government has set a higher minimum wage of RM1,000 for all employees beginning July.

This rate would also apply to wages of all foreign workers in the country, Deputy Human Resource Minister, Datuk Seri Ismail Abdul Muttalib said.

He said the decision was made after considering various aspects including cost of living and the nation's economic growth.

He said the minimum wage review was made once every two years to ensure employee productivity and competitiveness remains at the optimum level.

"The government will review once every two years. This is in line with the National Wages Act and takes into account various aspects including cost of living, productivity level and such. The next review will be in 2018," he told the Dewan Rakyat today.

Ismail was responding to a question by Su Keong Siong (DAP-Ipoh Timur) who wanted to know the latest update on the country's minimum wage status.

Meanwhile, Ismail also informed that the minimum wage in Sabah and Sarawak was at RM920.

He said, any employer which fail to comply with the rate can have action taken against them under the National Wages Consultative Council Act 2011.

Since 2014, a total of 692 employers have been prosecuted after 81,200 checks were conducted, he added.

Source: Article was adapted from http://english.astroawani.com/malaysia-news/rm1-000-minimum-wage-beginning-july-101208.

(a) Explain the impact of the new minimum wage on hours of work for Malaysians using the Work-Leisure Decision Model if:

(i) Substitution effect dominates income effect. (5 marks)

(ii) Substitution effect and income effect are equal. (5 marks)

(iii) Income effect dominates substitution effect. (5 marks)

(b) If the government decided to abolish the minimum wage, briefly explain **TWO (2)** likely outcomes on the hours of work for Malaysians. (5 marks)

(c) Illustrate using an appropriate diagram how the newly-implemented minimum wage legislation might affect employment in Malaysia. Assume that the Malaysian labour market is competitive. (5 marks)

Continued...

(d) Briefly discuss **THREE (3)** advantages and **TWO (2)** disadvantages of implementing minimum wage law in Malaysia. (15 marks)

[Total marks: 40 marks]

Question 2

(a) Lauren is now working in a job that pays $10,000 per year. He is considering a one-year MBA course that costs $3000 for books and tuition. Lauren expects that the course will increase his income to $13,000 in each of the three years following completion of the course. After three years, he plans to retire. Assume the current interest rate is 8%.

(i) Calculate the net present value of the human capital investment. (7 marks)

(ii) Based on your answer on part (a)(i), is it economically rational for Lauren to enroll in the course? Explain. (3 marks)

(b) Briefly explain **FOUR (4)** determinants of elasticity of labour demand. (10 marks)

[Total marks: 20 marks]

Question 3

(a) Analyze the effect of each of the following on the market labour demand for type X labour:

(i) An increase in product demand that increases product price. (3 marks)

(ii) The demise of several firms that hire this labour. (3 marks)

(iii) A decline in the market wage rate for this labour. (3 marks)

(iv) A decline in the price of a gross complement for labour. (3 marks)

(b) Graphically discuss how a prejudiced employer would hire an African-American worker with an example using Becker's taste for discrimination model. (8 marks)

[Total marks: 20 marks]

Continued...

Question 4

(a) Evaluate the likely effect of each of the following on the net present value of migration:

(i) Age (2 marks)

(ii) Education (2 marks)

(iii) Distance (2 marks)

(iv) Discount rate (Interest rate) (2 marks)

(b) Identify and explain **THREE (3)** factors that will influence the likelihood that any given worker will be a labour union member. Provide an example for each of the factor. (12 marks)

[Total marks: 20 marks]

End of Paper